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October 17, 2006

## AGENDA ITEM 5

### TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. **SUBJECT:** Modifications to 2007 Medicare Part B Premiums – Means Testing
- II. **PROGRAM:** Health Benefits
- III. **RECOMMENDATION:** Information Only
- IV. **BACKGROUND:**

#### **Medicare Part B Means Testing**

The federal government currently subsidizes 75 percent of the full standard Medicare Part B premium, which is \$354.00 in 2006, making the 25 percent beneficiary contribution \$88.50. Because all Medicare beneficiaries have traditionally paid the same portion of the full premium, their contribution is commonly referred to as the “Medicare premium.”

The Medicare Modernization Act of 2003 (MMA) provides that beginning January 1, 2007, the federal government will begin income-relating, or “means testing,” beneficiaries’ contributions to the Medicare Part B premium, requiring those with incomes above a set threshold (adjusted annually) to pay greater portions of the premium. The Social Security Administration (SSA) will be mailing information to all Medicare beneficiaries giving them detailed information on the changes to the Part B premiums and advising them of their Part B premium contribution amount for 2007.

The following table shows the premium contribution categories outlined in the MMA, based on a beneficiary’s tax filing status and income. Beneficiaries in below-threshold income categories (\$80,000 and under for singles, and \$160,000 and under for joint filers) will continue to pay the 25 percent Part B premium contribution. Income-based adjustments to Part B premiums pursuant to the MMA are further subject to a three-year phase-in. To show the full impact of the changes, the table displays 2007 contributions assuming full phase-in in addition to the actual 2007 phase-in amounts set by the Centers for Medicare & Medicaid

Services (CMS). The out-of-pocket cost to CalPERS Medicare members varies based on their health plan premium and employer health benefit contribution.

Beneficiary contribution			Tax Filing Status / Income Categories		
Portion of full standard premium	Monthly individual premium contribution, full phase in*	Monthly individual premium contribution, 2007 actual	Single, head of household, qualifying widow(er) with dependent child, married filing separately (living apart)	Married, filing jointly	Married, filing separately (living with spouse)
25%	\$93.50	\$93.50	\$80,000 and under	\$160,000 and under	
35%	\$130.90	\$106.00	\$80,001 to \$100,000	\$160,001 to \$200,000	
50%	\$187.00	\$124.70	\$100,001 to \$150,000	\$200,001 to \$300,000	
65%	\$243.10	\$143.40	\$150,001 to \$200,000	\$300,001 to \$400,000	\$80,001 to \$120,000
80%	\$299.20	\$162.10	\$200,001 or higher	\$400,001 and higher	\$120,001 and higher

\*Based on the 2007 full standard premium of \$374.00. The MMA provides for a three-year phase in of the income-related premium increases. To show the full impact of the changes, the table displays 2007 contributions assuming full phase in, as well as the actual 2007 phase in amounts beneficiaries will pay.

### **Medicare Part B Premium Reimbursement Under PEMHCA**

The Public Employees' Medical and Hospital Care Act (PEMHCA) Section 22879 provides that the state will reimburse state Medicare members for their Part B premium up to specified amounts. The maximum amount available to reimburse a member's out-of-pocket Part B cost is the difference between the 100/90 formula contribution and the member's health plan premium. As a result, the state reimburses state Medicare members for their out-of-pocket Part B premium cost if the state contribution exceeds their CalPERS health plan premium, up to the limit of the state contribution.

### **Medicare Member Impact**

CalPERS does not maintain members' tax filing status or members' income information for the purpose of identifying Part B premium contribution levels and determining the number of state Medicare members affected by higher premium contribution amounts. To estimate the number of members impacted by income-based increases to Part B premiums, staff used national income data<sup>1</sup>. Staff also estimated the number of members who will not have additional amounts available to them to provide reimbursement for above-threshold Part B premium contributions based on the 100/90 formula. Staff's analysis found that

<sup>1</sup> Aged 65 and over income data from *Income of the Population 55 or Older, 2004*, Social Security Administration Publication No. 13-11871, May 2006.

- ♦ Income-based increases to Part B premiums will not affect an estimated 96.6 percent of CalPERS' 105,211 state Medicare members.
- ♦ Of the estimated 3,577 state Medicare members subject to income-based increases to their Part B premiums, only 1,994 will not have additional employer contribution amounts available to reimburse them for above-threshold premium contributions. These members represent 1.9 percent of the total CalPERS state Medicare population. Generally, they are PPO members with higher health plan premiums, meaning they have little or no employer contribution remaining to cover Medicare Part B premiums.

### **Program Impact**

#### *State Employers*

CalPERS will continue to provide the maximum amount of reimbursement for Part B premiums permitted by Section 22879. Specifically, CalPERS will:

- ♦ continue to reimburse state Medicare members for their 25 percent, non-income adjusted Part B premium contributions (up to the amount permitted by Section 22879) through direct monthly benefit warrants, and
- ♦ reimburse state Medicare members subject to income-based Part B premium increases (up to the amount permitted by Section 22879) through member submission of documentation of the additional cost.

Using the national data cited above, staff estimates that 1,583 Medicare members (nearly half of those with above-threshold incomes) could potentially qualify for reimbursement of all or part of their above-threshold Part B premium costs.

#### *Contracting Agency Employers*

The impact of Medicare Part B premium means testing on contracting agency employers will vary depending on bargaining agreements in the over 1,100 contracting agencies. State law does not provide for reimbursing contracting agency Medicare enrollees for their Medicare Part B premiums.

### **Communication Plan**

CalPERS will send all state Medicare members a letter in November explaining that

- ♦ Medicare Part B premium changes may affect their Part B premium cost,

- ♦ CalPERS will continue to reimburse members' Medicare Part B premiums to the fullest amount permitted by state law,
- ♦ Medicare will inform beneficiaries of how much they will pay in 2007,
- ♦ Medicare members may be eligible for reimbursement of all or part of their income-related premium costs, and
- ♦ CalPERS is currently evaluating implementation options and will send a follow-up letter in December informing state Medicare members of actions they may need to take to obtain reimbursement for income-related premium costs covered by their CalPERS health benefit.

CalPERS will also send a letter to employers in November explaining that

- ♦ Part B premium changes will affect some state Medicare members,
- ♦ the amount the state must contribute toward the Part B premium may increase for some members,
- ♦ CalPERS is determining how to best implement this change and will provide further information as it becomes available.

**V. STRATEGIC PLAN:**

This item supports CalPERS Strategic Plan Goal X – “Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.”

**VI. RESULTS/COSTS:**

Staff is assessing the administrative cost associated with reimbursing Medicare members for their above-threshold Medicare Part B premium costs pursuant to PEMHCA. Staff will work through the Finance Committee if funding is necessary.

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